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TO: COUNCIL MEMBERS

FROM: David Whitaker, Director
Legislative Policy Division Staff

DATE: December 11, 2018

RE: Development Incentives Flow of Funds

In the Planning and Development Standing Committee, Council member Scott Benson requested that the Legislative Policy Division (LPD) work jointly with the Detroit Economic Growth Corporation (DEGC) to produce a report on the financial impact tax abatements in general have on both the Detroit Public Schools (DPS) "old" and the Detroit Public Community School District (DPSCD) "new."¹

In its report of December 2018, based on the City's current tax abatement policy criteria and the provisions in State law, the DEGC determined:

- Tax incentives in the City of Detroit are unlikely to negatively affect the Detroit Public Schools Community District's (DPSCD) operating funds.
- A majority of the projects would not go forward without an abatement, given the City's "but for"² determination criteria
- Despite the fact that tax abatements result in a reduced tax bill on a future investment, which is realized by the developer, primarily, tax revenue for the schools increases.

To demonstrate its point of increased school revenue with tax abatement projects, the DEGC used the Ford Corktown Project as an example. Ford requested four different incentives to support the project, Obsolete Property Rehabilitation Act, Commercial Rehabilitation Act, Neighborhood Enterprise Zone, and Renaissance Zone abatements.

¹ Detroit Public Schools (DPS) "old" refers to the "old" Detroit Public Schools (DPS), which will remain in existence only for the purposes of levying mills to pay off debt. The Detroit Public Community School District "new" was established to continue all rights, functions, and responsibilities of educating children, with the exception of paying off old operating debt. PA 193 of 2016, MCL 12.252-12.262

² "But for" is a reference to denote that the project would not go forward, without the incentive.

The impact of the Ford Corktown Project to DPS over the project's first five years:

First Five Years of Ford Corktown

	DPS Operating Millage	DPS Debt Millage
Existing Revenue (Prior to Investment)	\$54,120	\$39,085
Revenue Gain (After Investment)	\$4,705,272	\$3,398,252
Revenue Forgone (Overall Abatement Impact)	(\$1,508,400)	(\$3,280,433)
Net Revenue Impact (After Abatement)	\$3,250,992	\$156,904
Final Net Revenue Increase to DPS (Above Existing)	\$3,196,872	\$117,819

Final Net Percentage Increase to DPS (Above Existing) **5907.0%** **301.4%**

Prior to Ford's approximately \$738 million investment in the Ford Corktown Project,³ without any major investment, DPS was projected to levy and realize \$54,120 in operating millage revenue and \$39,085 in debt millage revenue. Given the aforementioned \$38 million investment, those figures would increase to \$4,705,272 in operating millage revenue and \$3,398,252 in debt millage revenue. Given the fact that the subject property was functionally and literally obsolete and there had been no investment or any viable commercial activity on the site for over 30 years, it is arguable that without any City incentives, the project and the investment would not occur. Therefore assuming the gross impact of the investment by Ford, if Ford did not obtain the abatement on the DPS operating millage revenue, the school district would receive \$4.7 million. Upon applying the abatement of \$1.5 million, leaves a net revenue of \$3.35 million. Despite the abatement, this increases the revenue potential on the site of the project by **\$3.196 million (5907%)**, based on the new investment over the first five years

The impact of the Ford Corktown Project to DPS over the project's next 30 years, which includes the implementation of the Renaissance Zone that is fully reimbursed by statute⁴ by the State of Michigan, is illustrated by the following chart below:

Next 30 Years of Ford Corktown

	DPS Operating Millage	DPS Debt Millage
Existing Revenue (Prior to Investment)	\$324,720	\$234,510
Revenue Gain (After Investment)	\$59,086,844	\$42,807,704
Revenue Forgone (Overall Abatement Impact)	(\$53,384,381)	(\$6,485,645)
State Reimbursement	\$53,384,381	\$0
Net Revenue Impact (After Abatement)	\$59,411,564	\$36,556,569
Final Net Revenue Increase to DPS (Above Existing)	\$59,086,844	\$36,322,059

Final Net Percentage Increase to DPS (Above Existing) **18196.2%** **15488.5%**

Please let us know if we can be of any further assistance.

³ The Ford Corktown project will include development of a total of 1.2 million gross square feet of office, retail, parking, and residential space across five sites within the Corktown neighborhood. These properties are projected to provide a workplace for 5,000 workers. The aggregated total investment for this project is estimated at \$738 million.

⁴ PA 376 of 1996, MCL 125.2692 Sec. 12. (2): Except as otherwise provided in subsection (6), this state shall reimburse local school districts each year for all tax revenue lost as the result of the exemption of property under this act from taxes levied under section 1211 of the revised school code, 1976 PA 451, MCL 380.1211, based on the property's taxable value in that year.